EXHIBIT I

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6/7/88

A.B. Holmes
Vice-President
P.I. Marketing

Re: 1989 Dividend Recommendations - Personal Lines of Business - Preliminary Proposal

<u>Background</u>

Dividend Scales for Personal Lines of Business are subject to approval from the Board of Directors. The matter is part of the October Agenda. Traditionally, because of the lead time required to update the administrative and marketing systems, the subject of dividends has been discussed at the July meeting of the Executive and Dividend Policy Committee in order to secure pre-agreement to the recommendations.

After the publication of financial statements, a review is then conducted in the February Board meeting of the following year, in order to get confirmation for the scales.

<u>Summary of Recommendations</u>

It is recommended to maintain the current dividend scales for Industrial, Ordinary and Individual Annuities lines of business. For Personal Health Insurance, it is recommended to maintain the current policy of not paying dividends on this business.

Mr. Derek Thomson has provided the recommendations for the Annuity line of business. The remaining sections of this preliminary recommendation will deal strictly with Personal Life Insurance.

The Industrial Dividend Scales were updated last for the year 1987. In view of the comfortable level of surplus and the earnings projected for this line of business, it is recommended to maintain the current scale for 1989.

The Ordinary Dividend Scales were updated last for the year 1988. The scales have been decreased because of concerns regarding projected earnings. In view of this update and the current level of projected earnings for the Ordinary Lines, it is recommended to maintain the scales at their current level for 1989.

<u>Marketing Considerations</u>

The recommendations are made with a goal to provide stability in our dividends at least at the early duration. A rise in expense charges is very detrimental to these dividends and usually creates embarrassment for representatives trying to justify why a dividend paid is so low percentage wise, compared to the dividend previously illustrated. The result is a dissatisfied policyholder who does not have faith in the product he has purchased from Metropolitan.

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A difficulty will arise on Ordinary policies which have been sold under the Accelerated Payment Plan (APP) concept during the period 1984-1987. The period required for the policyholder to no longer be required to pay his premium will be extended over the period we had previously illustrated. This matter was known and considered acceptable at the time the last dividend scale was adopted.

Financial Considerations

The proposed recommendations if adopted will result in a payout of $112.2 million for the year 1989 for Personal Life Insurance lines of business which is $5.0 million higher than the current payout projection for 1988. The dividend funds is expected to reach $1,994 million at the end of 1988 from the current level of $1,708 as of December 31, 1987.

The current April projection of earnings for 1988 shows an expected profit before tax of $33.0 million on a statutory basis for Personal Insurance lines of business within Metropolitan Life (Hotcan excluded) which is slightly ahead of the plan earnings of $30.1 million.

Even though, the profit before tax is higher than expected, it is not recommended to increase dividends to policyholders on account of the tax on net investment income of insurance companies proposed in the June 1987 Budget from the Federal Government. The details on how the tax will be calculated are not settled yet. Nevertheless, the tax unit expects the cost of this tax to be $1.5 million in 1988, $3.0 million in 1989 and increasing steadily until it reaches $8.5 million in 1992.

Also, the current economic forecast as provided by the Canadian Corporate Investments Office calls for relatively small variations in interest rates over the next three years. A small increase in interest rates is forecast for the short term. A recession is expected over the next year or so. Decreasing interest rates will follow the recession. The projected rates are lower then the rates currently available for new money. This scenario and the desire to provide stability in the dividend scales support the recommendation to maintain the current scale.

Sincerely,

Gaëtan Nicolas

Gaëtan Nicolas
Managing Director
P.I. Financial

May 31, 1988

cc F. Smith, J. Kerr

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